

**Newaygo County
Mental Health Board**

Financial Statements
September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Newaygo County Mental Health Board	County Newaygo
Fiscal Year End September 30, 2006	Opinion Date December 15, 2006	Date Audit Report Submitted to State March 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

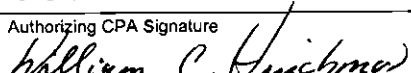
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Roslund, Prestage & Co., P.C.		Telephone Number (989) 463-6123		
Street Address 308 Gratiot Avenue		City Alma	State MI	Zip 48801
Authorizing CPA Signature 		Printed Name William Hirschman		License Number 1101016179

Newaygo County Mental Health Board
Table of Contents
September 30, 2006

Independent Auditor's Report

Management's Discussion and Analysis I - VII

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3

Reconciliation of Fund Balances on the Balance Sheet for
Governmental Funds to Net Assets of Governmental
Activities on the Statement of Net Assets 4

Statement of Revenues, Expenditures and Changes in Fund
Balances – Governmental Funds 5-6

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities 7

Statement of Net Assets – Proprietary Funds 8

Statement of Revenues, Expenses and Changes in Fund
Net Assets – Proprietary Funds 9

Statement of Cash Flows – Proprietary Funds 10

Notes to the Financial Statements 11-29

Required Supplemental Information:

Budgetary Comparison Schedules 30-31

Other Supplemental Information:

Individual Fund Statements:

General Fund – Statement of Expenditures 32-33

Government Auditing Standards Audit Reports 34-35



INDEPENDENT AUDITOR'S REPORT

Newaygo County Mental Health Board
White Cloud, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Newaygo County Mental Health Board, as of and for the year ended September 30, 2006, which collectively comprise Newaygo County Mental Health Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newaygo County Mental Health Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Newaygo County Mental Health Board, as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2006 on our consideration of Newaygo County Mental Health Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newaygo County Mental Health Board's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Newaygo County Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

The management of Newaygo County Mental Health Services (NCMH) presents the following discussion and analysis of the financial activities during the fiscal year 2005/2006. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. NCMH, which was created as a Mental Health Authority on January 1, 1999 by action of the Newaygo County Board of Commissioners, has entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Gratiot County Community Mental Health, Manistee Benzie Community Mental Health, and Ionia County Community Mental Health. This affiliation is called the Community Mental Health Affiliation of Mid-Michigan.

Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with NCMH to provide Medicaid covered services for the county of Newaygo for the current fiscal year. At this time, NCMH has approximately 8,400 total Medicaid covered lives. This number has been stable over the last 12 months from 8,600 covered lives. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Newaygo County Mental Health also holds a Managed Mental Health Supports and Services Contract with the Michigan Department of Community Health for general funds.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements.

The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements report information using the modified accrual basis of accounting. For NCMH, the major funds consist of the general fund and the proprietary fund.

Governmental fund financial statements identify how day-to-day community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements identify funds set aside in our Internal Service Fund for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

Summary of Net Assets

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2006 and 2005.

Summary of Net Assets		
As of September 30, 2006 and 2005		
(In dollars)		
	<u>2006</u>	<u>2005</u>
Assets		
Current Assets	2,162,771	1,797,355
Restricted Assets	1,302,382	1,336,910
Capital Assets	<u>99,673</u>	<u>127,392</u>
Total Assets	2,162,771	1,797,355
Liabilities		
Current Liabilities	965,076	715,157
Noncurrent Liabilities – Comp. Absences	<u>166,197</u>	<u>145,223</u>
Total Liabilities	1,131,273	860,380
Net Assets		
Investment in capital assets	99,673	127,392
Restricted for risk management	78,208	77,514
Reserved for Michigan Families	432,233	506,627
Reserved for Retiree Health Insurance	622,930	607,546
Unrestricted	<u>1,200,509</u>	<u>1,082,198</u>
Total Net Assets	2,433,553	2,401,277

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$ 1,031,498, an increase of \$94,523 or 9.1%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others, deferred revenue and current portion of long-term liabilities.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

At the end of the fiscal year, general fund expenses exceeded revenues by \$2,816.00. A transfer was made from the internal service fund, or risk reserve, to cover this amount.

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$1,302,282 have decreased slightly from last year from \$1,336,910, or a decrease of 2.6%.

The Michigan Families Enterprise fund is also a restricted asset. The Enterprise Fund is a collaborative agreement that is used to fund wraparound and other needed services to families in Newaygo County. The amount in the Enterprise Fund decreased \$74,394 during FY06.

The other assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance in this account was \$78,208 and is funded to 6.5% of the current general fund contract.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value and restated to be net of the accumulated depreciation. As of the beginning of fiscal 2006, capital assets having an original book value of \$508,523 were recorded, net of restated accumulated depreciation of \$408,850, for a beginning net book value of \$99,673.

As of year-end, the net book value of capital assets was 20% of the original book value compared to 24% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations as well as the long-term portion of notes payable used to acquire and improve buildings.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$1,823,439, an increase of \$132,695. Unrestricted net assets were 75% of total assets, up from 70% from the prior year. This increase is due to a number of factors including higher interest rates, and Clinton-Eaton-Ingham CMH, providing our share of the additional Local Match to participate in the post authority status Medicaid local match draw-down program.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2006 and 2005.

Summary of Activities

As of September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenue		
Medicaid specialty supports and services	5,885,136	5,156,523
State general fund priority populations	1,260,845	1,150,967
Adult Benefit Waiver	159,321	171,042
Program service revenue	258,421	292,647
Grants and earned contracts	122,034	101,312
County appropriation	220,000	220,000
Interest income	85,122	65,671
Other local income	<u>61,825</u>	<u>57,410</u>
Total Revenue	8,052,704	7,215,572
Expense		
Personnel expense	4,173,491	3,928,420
Operating expense	<u>3,731,823</u>	<u>3,444,590</u>
Transfer in	2,816	
Total Expense	7,908,130	7,373,010
Excess of Revenue over Expense	150,206	(157,438)

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

Excess of revenue over expenses from activities for the current year was \$147,390 or about 1.8% of revenue. This is an increase of \$74,394 from the prior year net income of \$72,996.

Revenue for the year was \$8,052,702, an increase of \$837,132 or 11.6% from the prior year.

Medicaid specialty supports and services revenue of \$5,885,136 represents 73% of total revenue and increased \$728,613. Unspent Medicaid subcontract funds of \$457,172 are not revenue and are shown as amounts due to the PIHP.

State general fund priority population revenue (formula funding) of \$1,260,845 represents 16% of total revenue and increased \$109,878 or 9.5% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$46,926 of prior year general fund deferred revenue. Expenses exceeded general fund revenues by \$2,816. A transfer was made from the risk reserve fund to cover these expenditures.

Adult Benefit Waiver revenue of \$159,321 represents 2% of total revenue and decreased \$11,721 or 6.8% compared to the prior year. This funding was a new revenue source in fiscal year 2004 and was initiated at that time to take the place of the State Medical program. Any unused funds at the end of the fiscal year are treated as local funds. However, expenditures exceeded revenues and \$ 83,179 of general funds were allocated to cover these expenses.

Grants and earned contract revenue of \$ 371,679 includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 4.6% of total revenue and have decreased \$13,265 or 3.4% over the prior year.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 3.8% of revenue and have increased \$ 23,866 or 7.5% from the prior year. This increase is primarily due to increased interest income. The county appropriation was unchanged.

Total expense of \$7,905,314 has increased \$532,304 or 7% compared to the prior year. Personnel expense is 53% of total expense and has increased \$245,071 or 6%. Operating expense is 47% of total expense and has increased \$287,233 or 8.3%

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

FUTURE OUTLOOK

The State of Michigan continues to struggle with balancing huge budget deficits. Federal deficits continue to place additional pressures on Medicaid funding. State general funds are also at risk for funding cuts. The effect of these difficulties on future funding for Newaygo County Mental Health and specialty supports and services is unknown. Newaygo County Mental Health is committed to containing costs and efficiency gains in all areas of our operations.

Management anticipates zero or negative growth in State revenues. While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents. Management will continue to explore alternative funding sources where appropriate, analyze expenses, and implement cost efficiencies where possible. Newaygo County Mental Health will continue to provide to our customers the best programs and service array for the best value.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

	Governmental Activities	
	2006	2005
Assets		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$1,980,366	\$1,546,917
Accounts Receivable, Net	72,606	114,133
Due from Other Governmental Units	62,257	36,643
Prepaid Expenses	47,542	99,662
Total Current Assets	2,162,771	1,797,355
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	1,302,382	1,336,910
Capital Assets - Depreciable, Net	99,673	127,392
Total Noncurrent Assets	1,402,055	1,464,302
Total Assets	3,564,826	3,261,657
Liabilities		
Current Liabilities		
Accounts Payable	322,396	303,920
Deferred Revenue	20	46,926
Accrued Wages and Other Payroll Liabilities	148,828	133,973
Due to Other Governmental Units	493,832	230,338
Total Current Liabilities	965,076	715,157
Noncurrent Liabilities		
Compensated Absences	166,197	145,223
Total Noncurrent Liabilities	166,197	145,223
Net Assets		
Invested in Capital Assets, Net of Related Debt	99,673	127,392
Restricted for:		
Michigan Families Program	432,233	505,627
Risk Management	78,208	77,514
Unrestricted	1,823,439	1,690,744
Total Net Assets	\$2,433,553	\$2,401,277

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue And Changes In Net Assets	
		Charges for Services	Operating Grants and Contributions	2006	2005
Governmental Activities					
Health & Welfare - Mental Health	<u>\$8,052,852</u>	<u>\$5,944,382</u>	<u>\$2,023,199</u>	(\$85,271)	(\$268,445)
General Revenues					
Unrestricted Investment Earnings				85,122	40,948
Restricted Investment Earnings				<u>27,960</u>	<u>17,551</u>
Total General Revenues and Contributions				113,082	58,499
Transfers To Affiliates				-	-
Change in Net Assets				27,811	(209,946)
Net Assets - Beginning Of Year				2,401,277	2,612,090
Prior Period Adjustment				<u>4,465</u>	<u>(867)</u>
Net Assets - End Of Year				<u>\$2,433,553</u>	<u>\$2,401,277</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

NEWAYGO COUNTY MENTAL HEALTH BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

	MAJOR FUNDS		Total Governmental Funds	
	General Fund	Michigan Families	2006	2005
Assets				
Cash and cash equivalents - unrestricted	\$1,980,366	-	\$1,980,366	\$1,546,917
Due from other funds	2,816	-	2,816	-
Accounts receivable, net	72,606	-	72,606	114,133
Due from other governmental units	62,257	-	62,257	36,643
Prepaid expenses	47,542	-	47,542	99,662
Cash and cash equivalents - restricted	789,127	\$432,233	1,221,360	1,259,396
Total Assets	\$2,954,714	\$432,233	\$3,386,947	\$3,056,751
Liabilities				
Accounts payable	\$322,396	-	\$322,396	\$303,920
Deferred revenue	20	-	20	46,926
Accrued wages and other payroll liabilities	148,828	-	148,828	133,973
Due to other governmental units	493,832	-	493,832	230,338
Total liabilities	965,076	-	965,076	715,157
Fund balances				
Reserved for:				
Michigan families program	-	\$432,233	432,233	506,627
Prepaid expenses	47,542	-	47,542	99,663
Unreserved	1,942,096	-	1,942,096	1,735,304
Total fund balances	1,989,638	432,233	2,421,871	2,341,594
Total liabilities and fund balances	\$2,954,714	\$432,233	\$3,386,947	\$3,056,751

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total fund balance - governmental funds	\$2,421,871
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	508,523
Deduct: accumulated depreciation	(408,850)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	78,206
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: compensated absences	<u>(166,197)</u>
Net assets of governmental activities	<u><u>\$2,433,553</u></u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

	General Fund	Michigan Families	Total Governmental Funds	
			2006	2005
Revenues				
State Grants				
Department of Community Health Contract	\$1,260,845	-	\$1,260,845	\$1,150,967
Adult Benefit Waiver	159,321	-	159,321	171,042
MI Child	8,776	-	8,776	9,015
Title XX	2,579	-	2,579	2,579
Total State Grants	1,431,521	-	1,431,521	1,333,603
Federal Grants				
Mental Health Block Grants	12,296	-	12,296	18,257
Alzheimer's Grant	60,450	-	60,450	60,450
PAS / ARR Grant	40,512	-	40,512	13,590
Total Federal Grants	113,258	-	113,258	92,297
Contributions - Local Units				
County Appropriations	220,000	-	220,000	220,000
Charges for Services				
Medicaid - DCH Contract	5,764,084	-	5,764,084	5,053,205
Medicaid - Other	121,052	-	121,052	103,318
Client and Third Party Pay	59,246	-	59,246	54,831
Total Charges for Services	5,944,382	-	5,944,382	5,211,354
Interest and Rents	85,122	\$24,452	109,574	65,671
Other Revenue	258,421	-	258,421	292,647
Total Revenues	8,052,704	24,452	8,077,156	7,215,572

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

Expenditures	General Fund	Michigan Families	Total Governmental Funds	
			2006	2005
Health & Welfare - Mental Health				
Personnel Expenditures	\$4,173,491	\$83,289	\$4,256,780	\$3,928,420
Operating Expenditures	3,731,823	15,557	3,747,380	3,444,590
Total Expenditures	7,905,314	98,846	8,004,160	7,373,010
Revenues Over (Under) Expenditures	147,390	(74,394)	72,996	(157,438)
Other Financing Sources (Uses)				
Operating Transfers In (Out) - Internal Service Fund	2,816	-	2,816	-
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	150,206	(74,394)	75,812	(157,438)
Fund Balance, October 1	1,834,967	506,627	2,341,594	2,499,899
Prior Period Adjustment	4,465	-	4,465	(867)
Fund Balance, September 30	<u>\$1,989,638</u>	<u>\$432,233</u>	<u>\$2,421,871</u>	<u>\$2,341,594</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	\$75,812
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Deduct: depreciation expense	(27,719)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: interest income from governmental internal service fund	3,508
Deduct: transfer in from internal service fund	(2,816)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Less: increase in accrual for compensated absences	(20,974)
Change in net assets of governmental activities	<u><u>\$27,811</u></u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006 AND 2005

	Internal Service Funds	
	2006	2005
Assets		
Cash and cash equivalents	<u>\$81,022</u>	<u>\$77,514</u>
Liabilities and Net Assets		
Liabilities		
Due to other funds	\$2,816	-
Net Assets		
Restricted	<u>78,206</u>	<u>\$77,514</u>
Total Liabilities and Net Assets	<u>\$81,022</u>	<u>\$77,514</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Funds	
	2006	2005
Non-Operating Revenues (Expense)		
Interest Income	\$3,508	\$1,829
Operating Transfers		
Operating Transfers Out - Abatement, General Fund	(2,816)	-
Change In Net Assets	692	1,829
Net Assets, October 1	77,514	75,685
Net Assets, September 30	<u>\$78,206</u>	<u>\$77,514</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Funds	
	2006	2005
Cash Flows From Capital and Related Financing Activities		
Operating Transfers Out - Abatement, General Fund	(\$2,816)	-
Cash Flows from Investing Activities		
Interest Income	3,508	\$1,829
Net Change in Cash and Cash Equivalents	3,508	1,829
Cash and Cash Equivalents, October 1	77,514	75,685
Cash and Cash Equivalents, September 30	<u>\$81,022</u>	<u>\$77,514</u>
Reconciliation of Operating Income To Net Cash Provided		
By (Used For) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Newaygo County Mental Health Board
Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Newaygo County Mental Health Board (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Newaygo County Mental Health Board elected to become a Mental Health Authority effective January 1, 1999.

The Board operates under the provisions of Act 258 Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Board arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Newaygo who meet eligibility and other criteria.

As the community mental health services provider for Newaygo County, the Board also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board.

Based on the application of the criteria, the Board does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Newaygo County Mental Health Board
Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Newaygo County Mental Health Board
Notes To Financial Statements

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Michigan Families Fund – This fund accounts for the activities of the Michigan Families program.

Newaygo County Mental Health Board
Notes To Financial Statements

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Board's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Board adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables Between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due/to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Newaygo County Mental Health Board
Notes To Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include equipment, software and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Board does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Newaygo County Mental Health Board
Notes To Financial Statements

Capital assets of the Board are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5-10
Computers	5
Software	3
Vehicles	4
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of compensated absences, retirees health insurance, Michigan Families program, and for the risk reserve liability. These restricted assets are held in separate cash accounts with local financial institutions.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Board.

Deferred Revenue

Deferred revenues arise when resources are received by the Board before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Newaygo County Mental Health Board
Notes To Financial Statements

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

General Fund Revenue

The Board provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Newaygo County.

Medicaid Revenue

Also, the Board contracts to receive Medicaid revenue through the Community Mental Health Affiliation of Mid-Michigan (CMHAMM) for Medicaid-qualified services rendered to residents of Newaygo County. CMHAMM serves as the Pre-Paid Inpatient Health Plan (PIHP) for the area that includes Newaygo County and they contract with the MDCH to administer these Medicaid funds.

Newaygo County Mental Health Board
Notes To Financial Statements

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year current year the Board incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report as unfavorable variances.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

Cash & Cash Equivalents	2006	2005
Petty Cash	\$200	\$200
Checking, Savings, And Money Market Accounts	448,309	172,875
Certificates of Deposit	1,531,857	1,373,842
Certificates of Deposit - Restricted	1,302,382	1,336,910
Totals	\$3,282,748	\$2,883,827

Restricted Cash and Cash Equivalents

The Board has charged to the Department of Community Health, the vested portion of compensated absences and future expected cost of employees' health insurance as of September 30th. The Board holds, in a separate bank account, funds equal to or greater than these estimated liabilities. The use of these funds is restricted to payment of compensated absences and retiree health insurance premiums as they come due.

Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the MCSSP contract.

Newaygo County Mental Health Board
Notes To The Financial Statements

The restricted cash shown above represents cash and cash equivalents restricted for the following:

Restricted For:	2006	2005
Compensated Absences	\$166,197	\$145,223
Michigan Families Program	432,233	506,627
Risk Reserve – Internal Service Fund	81,022	77,514
Retirees Health Insurance	622,930	607,546
Total	\$1,302,382	\$1,336,910

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. The Board does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$3,254,581 of the Board's \$3,454,611 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits.

As a result, the Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes authorize the Board to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of the end of the current year, the Board had no such investments.

The Board's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Newaygo County Mental Health Board
Notes To Financial Statements

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Board's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities.

The Board's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. The Board requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts.

The Board does not have any additional policies for custodial credit risk over investments.

Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks.

The Board's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Board places no limit on the amount it may invest in any one issuer.

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Newaygo County Mental Health Board
Notes To Financial Statements

Due from Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2006	2005
State of Michigan – OBRA	\$22,111	\$3,135
State of Michigan – Alzheimer's Program	346	831
State of Michigan – DCH, Children's Model Waiver	14,181	15,113
State of Michigan – DCH, Cost Settlement	7,112	-
Newaygo County - Forensics	18,507	17,564
Total	\$62,257	\$36,643

Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid Expense	2006	2005
Insurance	\$14,648	\$54,897
Other	3,548	17,946
Maintenance Agreements	21,346	18,819
Flex Plan Set Up	8,000	8,000
Total	\$47,542	\$99,662

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$50,000	-	-	\$50,000
Vehicles	321,133	-	-	321,133
Furniture, Fixtures & Equip.	128,190	-	-	128,190
Computers and Software	9,200	-	-	9,200
Sub-total	508,523	-	-	508,523
Accumulated Depreciation	(381,131)	(\$27,719)	-	(408,850)
Totals	\$127,392	(\$27,719)	-	\$99,673

Depreciation expense was charged to Health and Welfare – Mental Health Program.

Newaygo County Mental Health Board
Notes to Financial Statements

Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2006	2005
5% Carry forward - DCH	-	\$46,926
Other	\$20	-
Totals	\$20	\$46,926

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Due to Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2006	2005
State Of Michigan – Inpatient/Residential	\$6,576	\$12,380
Clinton-Eaton-Ingham – Medicaid	457,172	142,412
State of Michigan – DCH, Forensic Center	14,277	2,990
County of Newaygo	-	21,965
Other	15,807	50,591
Total	\$493,832	\$230,338

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Operating Leases

Newaygo County Mental Health Board has entered into an operating lease for the use of real property with the County of Newaygo. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the liabilities.

Newaygo County Mental Health Board
Notes to Financial Statements

Long-Term Debt

Compensated Absences

Board policy allows employees to accumulate up to 208 hours of leave time, which is less than or equal to one year of benefits, and to carry the accumulation for an indefinite period of time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment. As of September 30, 2006 and 2005 this liability was \$166,197 and \$145,223, respectively.

Restrictions and Reserves

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

A portion of the net assets has been restricted for the Michigan Families Program.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

Transfers Between Funds

The Board transferred \$2,816 from the Internal Service Fund to the General Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

NOTE 4. OTHER INFORMATION

Compliance Audits

The Board participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Post-Employment Benefits Payable

Full-Time Employees Hired Prior To October 1, 2005

It is the policy of the Board to provide a continuation of health insurance coverage as a fringe benefit for retired employees of the Board (with the exception of the contract agents and part-time employees) who retire from active service in accordance with provisions of the policy. The following are the major provisions of the policy:

- Family continuation riders will not be included. Employees may purchase this coverage at their own expense.
- Full time employees may elect to enroll in employer-provided retiree health coverage provided they meet at least one of the following criteria:
 - Those who retire after attaining age 55 with at least 15 years of full-time service immediately before they retire;
 - Those who retire after attaining age 60 with at least 10 years of full-time service immediately before they retire; and
 - Those who terminate employment with the Agency before attaining age 55 but after completing at least 25 years of full-time service with the Agency. This group can enroll after attaining age 55.
 - Those who terminate employment because of a medical disability before attaining age 55 but after completing at least 15 years of full-time service with the Agency.

Employees may be required to pay a portion of the cost of coverage. The applicable cost is determined as follows:

- If you retire after attaining age 55 with at least 15 years of full-time employment immediately before your retirement, you are required to pay 25% of the cost of the coverage for yourself and spouse until you become eligible for Medicare (Part A or B).
- If you retire after attaining age 60 with at least 10 years of full-time employment immediately before your retirement, you will be required to pay 25% of the cost of the coverage for yourself and your spouse.
- If you leave employment before attaining age 55 but after completing at least 25 years of full-time employment with Employer, you will be required to pay 50% of the cost of coverage for yourself and your spouse. If you elect coverage for any dependent children, you will be required to pay 100% of the cost of their coverage.
- If you leave employment due to a medical disability before attaining age 55 but after completing at least 15 years of full-time employment immediately before you leave employment due to the medical disability, you will be required to pay 25% of the cost of the coverage for yourself, subject to the termination provisions in Section 5 of this policy.

Newaygo County Mental Health Board
Notes to Financial Statements

An actuarial basis is used to determine the amount of the expenditure and to fund the plan. An amount equal to or greater than the current liability is held in a restricted cash account for the future payment of these benefits.

Employees Hired After October 1, 2005

Employees hired after October 1, 2005 are enrolled in a Post-Employment Health Care plan with MERS. Under this plan, the employees contribute 1% of their income on a pre-tax basis to PEHC, and the agency matches 2% to this contribution. The funds are managed and invested by MERS for the benefit of the employee. There is a 15 year vesting schedule for the agency contributions to this plan. The employee contributions are immediately 100% vested. The funds are available to the employee six months after separation from employment, and can be used for allowable medical expenses without tax consequences.

Additional information about the post-employment health insurance benefits as well as the actuarial report can be obtained by writing to: Newaygo County Mental Health Board, 1049 Newell Street, PO Box 867, White Cloud, MI 49349.

MERS – Defined Benefit Plan

Plan Description

The Board participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2005. The Board's payroll for the employees covered by the system for the year ended December 31, 2005 was \$197,875.

The plan provides for normal retirement at age 60 with ten years of service credit. Early retirement is available with a minimum age of 55 with 15 years of service credit reduced by $\frac{1}{2}$ of 1% for each month under age 60 unless "waiver of section 47f" is adopted by the municipality, in which case no reduction would be made. The municipality may limit the waiver to members with 25 or more years of service.

The normal retirement benefit is a monthly pension payable in an amount equal to 2.5% of average final compensation times the years and months of service credit, not to exceed 40 years of service credit. This amount is payable until death or, in case of a disability, until receipt of full social security benefits. Vesting occurs after ten years of plan participation.

Newaygo County Mental Health Board
Notes to Financial Statements

Funding Policy

The amount of employer contributions is determined on a yearly basis. For the year ending September 30, 2006, employer contributions to this retirement plan was \$2,946.

For the 2007 fiscal year, employer contributions will be at the rate of \$853 per month.

At December 31, 2005, the assets were more than the pension benefit obligation by \$68,535, determined as follows:

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$914,686
Terminated employees not yet receiving benefits	97,695
Non-vested terminated employees (pending refunds of accumulated member contributions)	782
Current Employees:	
Accumulated employee contributions including allocated investment income	0
Employer financed	1,014,397
Total actuarial accrued liability	2,027,560
Net assets available for benefits at actuarial value (market = \$2,040,861)	2,096,095
Unfunded (over funded) actuarial accrued liability	(\$68,535)
Fiscal Year Beginning	October 1, 2007
Annual Required Contribution (ARC)	\$10,968
Amortization factor used – under-funded liabilities (24 years)	0.061616
Amortization factor used – under-funded liabilities (10 years)	0.119963

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
12-31-03	\$2,018,719	\$1,907,170	(\$111,549)	0%
12-31-04	2,058,013	1,978,029	(79,984)	0%
12/31/05	2,096,095	2,027,560	(68,535)	0%

Newaygo County Mental Health Board
Notes to Financial Statements

MERS – Defined Contribution Plan

Plan Description

On July 1, 1999, the full time employees of the Board were given the option to convert the defined contribution plan through the Municipal Employees Retirement System to a money purchase retirement plan administered by the ICMA Retirement Corporation. All new employees are automatically enrolled in the money purchase retirement plan.

Funding Policy

Under this plan, the Board contributes 4% of earnings to the Plan on behalf of each participant. If the participant contributes 3% of their earnings to the Plan, then the Board will contribute an additional 3%, matching the Participant contribution. The Board has no further retirement obligation to any Participant under this plan. The Participant controls the investments of the funds with the ICMA Retirement Corporation.

The vesting schedule for the Agency contributions is dependent on the years of service completed with the Agency and is as follows:

Years Of Service Completed	Percent Vested
Zero	Zero
One	25%
Two	50%
Three	75%
Four Or More	100%

The pension expense for the years ended September 30, 2006 and 2005 was \$175,618 and \$158,360, respectively.

This plan is also administered by the ICMA Retirement Corporation and information about these plans can be obtained at: MERS, 447 N. Canal Road, Lansing, MI 48917; and ICMA Retirement Corporation, 777 N. Capitol Street N.E., Washington, DC, 20002.

Alternative Social Security Plan

Plan Description

Those full-time employees in the MERS defined benefit plan, or fully participating in the defined contribution plan (i.e. matching 3% of their earnings), are not eligible for current contributions to be deducted for Social Security taxes, not including Medicare. As an alternative, a portion of the amount normally deducted for Social Security taxes (excluding Medicare) will be deducted from the employee's pay at a rate of 5.0% on a pre-tax basis.

Newaygo County Mental Health Board
Notes to Financial Statements

The Board matches this amount. The combined amount will be placed in a 401(a) alternative FICA plan, which is owned and controlled by the employee. This plan is considered an alternative plan to Social Security. Employees are immediately vested in this account, and the account is portable after termination of employment.

Funding Policy

The employee's contribute 5.0% of their wages which is deducted from their pay. The Board matches this amount.

Full-time employees who are not participating in Social Security, who elect to go part-time, will be enrolled in the Social Security system, and have payroll deductions for that purpose. Part-time employees who elect to become full-time, and fully participate in the defined contribution retirement plan, will be enrolled in the FICA alternative 401(a) plan.

Plan Description

As of January 1, 2006, full-time employees who are enrolled in the Alternative Social Security Plan also participate in a Post-Employment Health Care Plan (PEHC) sponsored by the Michigan Employee Retirement System, or MERS. PEHC allows both the employee and the employer to make pre-tax contributions to an account which is managed by MERS. The funds in the account are indented for post-employment health care expenses, and can be accessed six months following termination of employment with the agency. These funds are investment and managed by MERS.

Funding Policy

Under this plan, 1.2% of the employee's wages are deducted from their pay on a pre-tax basis. The Board matches this amount. Employees are immediately vested in both the employer and the employee contribution.

Risk Management

The Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Board participated in the public entity risk pool – Michigan Municipal Risk Management Authority (the Authority) for auto and general liability, property and crime and vehicle physical damage coverage.

The Authority, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

Newaygo County Mental Health Board
Notes to Financial Statements

As a member of this pool, the Board is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Board's limits, all further payments for such loss are the sole obligation of the Board. If for any reason, the Authority resources available to pay losses are depleted, the payment of all unpaid losses of the Board is the sole obligation of the Board.

Also, the Board authorized the establishment of an Internal Service Fund to account for funds to be used to cover the risk of overspending their authorized projected revenues covered by the Managed Care Specialty Services Program (MCSSP) contract.

The MCSSP contract entered into by the Board provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund that is restricted for use only to meet the expected future risk corridor requirements of the MCSSP contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Board finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Board by the contract.

The Board's coverage limit is \$5,000,000 for liability and between \$10,000 to \$100,000,000 for property and crime. The contribution made by the Board to the MMRMA was \$44,311.

Managed Care Risk Contract

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
State Grants				
Department of Community Health Contract	\$1,225,971	\$1,255,429	\$1,260,845	\$5,416
Adult Model Waiver	170,000	160,000	159,321	(679)
MI Child	9,100	8,798	8,776	(22)
Title XX	2,579	2,579	2,579	-
Total State Grants	1,407,650	1,426,806	1,431,521	4,715
Federal Grants				
Mental Health Block Grants	12,499	12,466	12,296	(170)
Alzheimer's Grant	60,450	60,450	60,450	-
PAS / ARR Grant	15,000	40,000	40,512	512
Total Federal Grants	87,949	112,916	113,258	342
Contributions - Local Units				
County Appropriations	220,000	220,000	220,000	-
Charges for Services				
Medicaid - DCH Contract	6,882,634	5,682,634	5,764,084	81,450
Medicaid - Other	109,000	102,500	121,052	18,552
Client and Third Party Pay	53,000	51,900	59,246	7,346
Total Charges for Services	7,044,634	5,837,034	5,944,382	107,348
Interest and Rents	69,000	109,000	109,574	574
Other Revenue	223,719	235,827	258,421	22,594
Total Revenues	9,052,952	7,941,583	8,077,156	135,573

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
Expenditures				
Health & Welfare - Mental Health				
Personnel Expenditures	\$4,444,193	\$4,285,574	\$4,256,780	\$28,794
Operating Expenditures	3,844,790	3,735,009	3,747,380	(12,371)
Total Expenditures	8,288,983	8,020,583	8,004,160	16,423
Revenues Over (Under) Expenditures	763,969	(79,000)	72,996	151,996
Other Financing Sources (Uses)				
Operating Transfers In (Out) - Internal Service Fund	-	-	2,816	(2,816)
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	763,969	(79,000)	75,812	149,180
Fund Balance, Beginning Of Year	2,341,594	2,341,594	2,341,594	-
Prior Period Adjustment	-	-	4,465	4,465
Fund Balance, End Of Year	<u>\$3,105,563</u>	<u>\$2,262,594</u>	<u>\$2,421,871</u>	<u>\$153,645</u>

The notes to the financial statements are an integral part of this statement

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

NEWAYGO COUNTY MENTAL HEALTH BOARD
SUPPORTING OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

	Governmental Fund Types		Total Governmental Funds	
	General Fund	Michigan Families	2006	2005
Personnel Expenditures				
Salaries And Wages	\$3,116,976	\$61,971	\$3,178,947	\$2,962,048
Fringe Benefits	<u>1,056,515</u>	<u>21,318</u>	<u>1,077,833</u>	<u>966,372</u>
Total Personnel Expenditures	<u>\$4,173,491</u>	<u>\$83,289</u>	<u>\$4,256,780</u>	<u>\$3,928,420</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
SUPPORTING SCHEDULE OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

	Governmental Fund Types		Total Governmental Funds	
	General Fund	Michigan Families	2006	2005
Operating Expenditures				
Accreditation	\$8,640	-	\$8,640	\$187
Affiliation Expense	7,793	-	7,793	7,691
Alzheimers Project	64,500	-	64,500	64,500
Board Per Diem	21,719	-	21,719	23,430
Board Lodging, Meals, Travel, Conference	29,741	-	29,741	30,906
Capital Outlay - Under \$5,000	71,262	\$1,716	72,978	49,585
Car Expense	71,997	4,477	76,474	59,052
Computer Enhancements	64,363	1,650	66,013	66,351
Community Hab Waiver	1,104,413	-	1,104,413	1,073,484
Dues and Memberships	9,313	5	9,318	10,320
Empowerment Network	70,919	-	70,919	76,472
Inpatient Care	623,972	-	623,972	610,651
Insurance - W/C	31,485	581	32,066	37,957
Legal and Accounting	24,459	-	24,459	33,647
Miscellaneous Person Expense	28,243	1,925	30,168	10,472
Medicaid Capacity Building	127,285	24	127,309	124,064
Public Relations	13,571	-	13,571	15,831
Publications	1,896	60	1,956	3,017
Professional Contracts	957,121	-	957,121	632,119
Recruitment	3,020	-	3,020	5,738
Rent	52,420	1,095	53,515	141,518
Repairs and Maintenance	3,201	-	3,201	5,598
Respite	96,085	1,053	97,138	100,328
Supplies	64,708	-	64,708	58,378
Telephone	40,187	1,030	41,217	45,840
Transportation	30,987	-	30,987	30,488
Travel, Meals, Lodging, Conferences, & Training	79,424	1,245	80,669	97,468
Unemployment	1,942	-	1,942	4,062
Utilities	27,157	696	27,853	25,436
Totals	\$3,731,823	\$15,557	\$3,747,380	\$3,444,590

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Newaygo County Mental Health Board
White Cloud, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Newaygo County Mental Health Board (the Board) as of and for the year ended September 30, 2006, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated December 15, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2006



MANAGEMENT LETTER

Board of Directors
Newaygo County Mental Health Board
White Cloud, Michigan

In planning and performing our audit of the financial statements for Newaygo County Mental Health Board for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 15, 2006 on the financial statements of Newaygo County Mental Health Board.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2006

Newaygo County Mental Health Board
Management Letter

STATUS OF PRIOR YEAR RECOMMENDATIONS

During the audit we were pleased to note that all of the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Charge Card Policy

Governmental units in Michigan are required to adopt, by Board resolution, a written policy regarding charge card use that is in compliance with Public Act 266 of 1995. The Newaygo County Mental Health Board has a charge card policy in place that meets all but one of the requirements. The missing requirement generally indicates that the charge card is to be paid within 60 days.

All charge card billings that we reviewed during our audit indicated that they were paid in full within the required time frame.

We have provided management a copy of Letter No. 2-96 from the Department of Treasury that outlines the requirements of Public Act 266 of 1995. We recommend that the charge card policy be reviewed and amended, as necessary, to include all the requirements as noted in the letter.